KEYNOTE INTERVIEW

Secondaries shine in a challenging PE market

Market volatility, an evolving investor base, rapid technological change and an ongoing lack of liquidity are helping to make the case for secondaries, says Pomona Capital CEO Michael Granoff

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Q Recent market uncertainty and escalating geopolitical tensions have raised concerns for investors. Does this affect the outlook for private equity?
This is undoubtedly a time of profound challenges, and private equity is not isolated from this uncertainty. You certainly can't say that private equity delivers absolute returns and is uncorrelated to what happens in public markets or with the oil price.

As a result, this is not an easy environment in which to make investment decisions, and as a manager you have to think about how you protect capital when times are challenging. But there are also opportunities that emerge in periods of dislocation that shouldn't be ignored. In secondaries, for instance, you can build in a margin of safety in periods that are more difficult.

So, the things that keep you up at night also present opportunities. We have to keep both of those things in mind at the same time. There is an obligation for private equity managers not just to play good defence, but to play good offence too.

Q As retail participation in private markets grows, what's worth watching closely?
The macro trend of non-institutional capital coming into private equity is one of the biggest developments that will shape the industry in the future.

I don't expect anyone to create a new pension fund anytime soon, so there is not going to be a big surge of new institutional capital flowing into the industry. But there is an enormous amount of capital in the hands of individuals who currently have little or no exposure to private equity. They increasingly want to access the same investment opportunities as institutional investors. There is potential for large capital flows to come into private equity over time as a result, and we've begun to see that.

The opportunity is vast, but it does come with complexity. Firstly, there is redemption risk, and that raises all kinds of questions about valuations. On the institutional side, for example, when an investor comes into our fund, they're not doing so based on interim valuations. Institutions are focused on realised returns. On the retail side, however, investors will trade in and out of funds based on interim valuations, and that does introduce an inherent volatility that has never really existed in the institutional market.

Secondly, there is an essential conflict in the fund architecture. Most retail funds provide liquidity or redemption rights on a quarterly basis, but if you look at the average holding period for companies in a buyout fund, it's five to seven years. How do you bridge the gap where the essential investment strategy involves holding companies in an illiquid structure for many years, but there is a retail vehicle that needs to provide liquidity in a much more regular way?

We have an opportunity to bridge these gaps, though. As a secondaries manager, we aim to build mature, diversified portfolios of thousands of companies across sectors and vintages, thereby creating organic liquidity across the portfolio, even in times that are more challenging, like today.

Without that natural liquidity, you either have to hold a large amount of cash or borrow a lot of money to ensure you can meet redemptions, and neither of those things is ideal for the underlying investor. But with secondaries, you can dovetail with the retail architecture, rather than bump up against it.

Q What will distinguish top-performing secondaries managers over the next cycle?

Investment strategy and team stability will always be paramount, but future success and performance will also be determined by how managers evolve operationally and build technology and AI into their businesses.

The industry is in a period of rapid change, and you have to adapt or else you could become a dinosaur. Managers will have to figure out how to use AI tools to improve what they do in every way. How can managers use AI to become better investors, provide safer investments, administer funds more efficiently and deepen communications with investors?

These are big questions. Successful organisations will be ones that are continuously pushing forward and adapting to find the answers.

Q In 2025, secondaries deal volume set a record high. How do you think about deploying capital in a rapidly growing market?

The secondaries market is indeed growing, and if you analyse where most of the supply of secondaries dealflow is coming from, that growth looks set to continue too.

The supply of secondaries deals is a function of two variables: the amount of money that goes into private equity over time, and how much of that invested capital is then sold or turned over.

The amount of capital that has gone into private equity over the past 10 years is immense. We are looking at figures as high as $14 trillion. Those are big numbers. Then, if you look at the

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turnover rate, the constraints on liquidity in private equity are well known, and there are tens of thousands of private companies held in private equity portfolios that will require liquidity at some point. That is not going to happen in a day, and even if markets return to a very steady positive state, it will take years and years for those portfolio companies to work through the system.

For secondaries investors, this presents a very positive outlook for deployment opportunity, but in an unpredictable market you do have to focus on asset quality. In volatile markets, the dispersion of returns between companies and funds gets a lot wider, so as a manager you have to be very selective as the market expands.

Investors provide us with capital because they expect us to provide four things: a diversified portfolio of high-quality assets, bought at a material discount to net asset value, and that can generate liquidity. That is a useful lens for shaping deployment strategy as the addressable market grows. Portfolios can become more concentrated if you are overweight GP-led transactions; quality can become more variable when you are chasing market share; and liquidity can be hard to come by if the underlying investments are still maturing.

You can't expect to deliver on the four pillars I just outlined if you simply buy the market. You can only meet those objectives if you invest in a relatively small fraction of the market. In our case, we only buy between 1 and 2 percent of the doable dealflow we see each year, because most of the time, transactions don't meet the criteria one way or another.

You really have to be careful about what you buy, how diversified it is, what you pay, and the liquidity that you think you're going to be able to generate.

Q If liquidity generation is a key criterion for investing, what does that mean for cash distributions going forward? How does asset selection influence that?

As mentioned, the private equity industry is in the middle of one of the biggest slowdowns in liquidity that it has had historically, both in terms of the amount of liquidity coming out and how long it's taking.

The liquidity slowdown can't be solved by flipping a switch, and it is something the industry is going to have to work through for quite a long time. People are putting a value on liquidity in a way that hasn't been the case for a long time. When we were raising capital many years ago and talked about liquidity, we actually had investors who said: "We don't care about liquidity." Can you imagine? Now there isn't an investor you talk to that doesn't ask about liquidity, because they realise how important it is.

We are entering a phase where there is a recognition of the differences between unrealised returns and realised returns. It's one thing to have a high net asset value that's unrealised, and to generate an eye-catching interim IRR based on that, but it's a very different thing to generate realised results. Ultimately, liquidity is not just money back in people's pockets, but a measure of the actual realisations of investments that represent real events, rather than unrealised estimates. If you have a diversified portfolio of high-quality, mature assets, your investors can realistically expect to see steady distributions – even in the context of the current market.

The best companies still sell, which highlights the asset quality point. Investing in more mature fund stakes, meanwhile, means you are much closer to a liquidity event than if you invest in young assets that still have a way to go before exit. The combination of these elements leads to scenarios where you can generate higher-than-market liquidity. Our liquidity was actually up last year in 2025 versus 2024.

The other piece around distributions is active portfolio management. You can't just be a buyer; you have to be a seller too. For assets where return targets have been achieved, where there is not much growth left, and where someone will pay a premium, then it makes sense to sell. ■